

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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JORDAN: SURPRISING ECONOMIC TRENDS

Summary

The Jordanian Government seems to have been caught offguard by a sharp drop in its hard currency holdings over the past year and evidently stagnating economic growth. The need to reverse these economic misfortunes probably was a prime motivator behind King Hussein's government shuffle in early April. Newly installed Prime Minister Rifai is moving quickly on the economic front, looking first for funds needed to stave off a liquidity crisis that would damage Jordan's good credit standing. Over the longer term, he hopes to prod Jordan's private sector into playing a more active role in the nation's development.

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Hard Currency Shortages

Jordan's most pressing economic difficulty is to halt the sharp decline in official foreign exchange holdings. These reserves fell nearly \$300 million in 1984--from \$798 million to \$500 million--and dropped another \$160 million in the first quarter of this year. The March balance of \$340 million amounts to only 6 to 7 weeks worth of imports.

The magnitude of the loss apparently is not due solely to the reduced flow of funds from the Arab states. Arab aid fell \$200 million in 1984 to about \$500 million and is unlikely to drop much further. At present only Saudi Arabia and--to a lesser extent--Kuwait are meeting their contributions to the

This memorandum was prepared by [] the Israel-Jordan-Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. Information as of 20 May 1985 was used in its preparation. Questions and comments are welcome and should be directed to Chief, Arab-Israeli Division, at []

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State Dept. review completed

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\$1.25 billion annually pledged to Jordan by seven Arab states in Baghdad in late 1978. [REDACTED]

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Workers' remittances on the other hand appear to be holding their own, despite the economic slowdown in the Gulf states. Jordan's net inflow of remittances last year at least held steady at around \$910 million and may have increased 10 to 15 percent if some returning workers brought home savings in addition to income. [REDACTED]

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Jordan's trade deficit, moreover, dropped by an estimated \$400 million. Exports surged by more than 15 percent--fueled largely by increased trade with Iraq--while imports declined around 10 percent. The improved trade performance helped cut the estimated current account deficit by \$100 million to \$290 million. The improvement would have been greater except for increased interest payments and a slight drop in tourist earnings. [REDACTED]

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We believe Jordan's current liquidity crunch may be due to poor financial management, particularly regarding the bunching of debt repayments and the overestimation of projected hard currency earnings.

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-- Tourist earnings--which amount to about 10 percent of GNP and employ 1.5 percent of the workforce--are falling despite increasing expenditures to beef up this sector. The US Embassy reports that four new hotels have opened since 1980, but that they are operating at a fraction of capacity.

-- Some of the recent increase in export earnings may simply be a bookkeeping phenomenon unaccompanied by actual dollar flows. The surge in sales to Iraq, for example, apparently was accomplished by means of government guaranteed credits. The US Embassy in Amman reports that Iraq's purchases last year were helped by \$125 million

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line of credit, while IMF reports show nearly \$450 million in export credits headed to Baghdad over the next three years. [REDACTED]

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The new government has acted quickly to stem the flow of red ink, entering the Eurodollar market for a \$200 million loan and receiving a \$70 million loan from the Arab Bank in Amman.

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Domestic Growth Slows

The domestic economy has suffered as a result of tightening foreign payments constraints. Officially, the Jordanians talk of economic growth slowing to about 4 to 5 percent annually the past two years. This is less than half of the rate of growth recorded just a few years earlier and only slightly positive on a per capita basis given population growth approaching 4 percent per year. Unofficially, the Jordanian press has alluded to new studies concluding that the economy grew little the past two years and actually declined on a per capita basis. [REDACTED]

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The impact of slower growth is not being evenly distributed. Industrial growth jumped nearly 15 percent last year, as textiles, chemicals and phosphates each grew around 30 percent. Their success was due to the increased output needed to meet Iraqi demands, and to the completion of some recent investments. Elsewhere, the economy fared less well: services hardly grew at all, construction dropped about 2 percent, and agriculture probably fell over 12 percent because of a severe drought. [REDACTED]

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Amman recognizes that stronger domestic economic performance is needed in light of recent, adverse trends in foreign trade and payments. Immediately upon assuming office, Prime Minister Rifai sought to reduce Amman's growing role in Jordan's theoretically free economy.

- The law requiring majority Jordanian ownership of all banks was scrapped.
- Regulations were reduced for the trucking industry--a key hard currency earner and important cost component of many industries.
- Restrictions on the hours of operation for private sector businesses were eliminated.
- Action was initiated to relax many price controls. [REDACTED]

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The new government also announced its intention to include the private sector in upcoming discussions about the 1986-90 five-year plan. Businesses responded enthusiastically to Amman's moves, with the stock market registering its largest gain in nearly three years shortly after the changes were announced.

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Outlook

Jordan's current slowdown has not yet had serious, adverse impact on consumers. Living standards remain high because of virtually no unemployment and low inflation--under 4 percent last year.

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Should international money markets send the Dinar down in response to the current financial crunch, however, imported inflation would likely grow. In addition, Jordanian officials remain concerned about the future of nearly 300,000 Jordanian expatriate workers--about 40 percent of Jordan's labor force. To date, many of those returning home have been able to replace foreigners working in Jordan. But domestic jobs for the highly skilled workers are few and will be competed for by an increasing pool of highly educated Jordanians entering the job market.

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Amman's plan to revitalize the domestic economy necessarily is a long-term strategy. In the near-term, Jordan's economic growth will remain constrained by external factors beyond its control and thus susceptible to sudden shocks. Amman, as a result, will continue to look to its Arab friends to help it through this transition period.

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The Jordanians also will press for increased economic assistance from the US--a major trade partner, supplying around 12 percent of total imports. Amman already has broached the topic of CCC credits. It also would like a return to higher levels of ESF, which have dropped to \$20 million from a peak of \$93 million at the end of the 1970s.

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JORDAN: EXTERNAL ECONOMIC INDICATORS

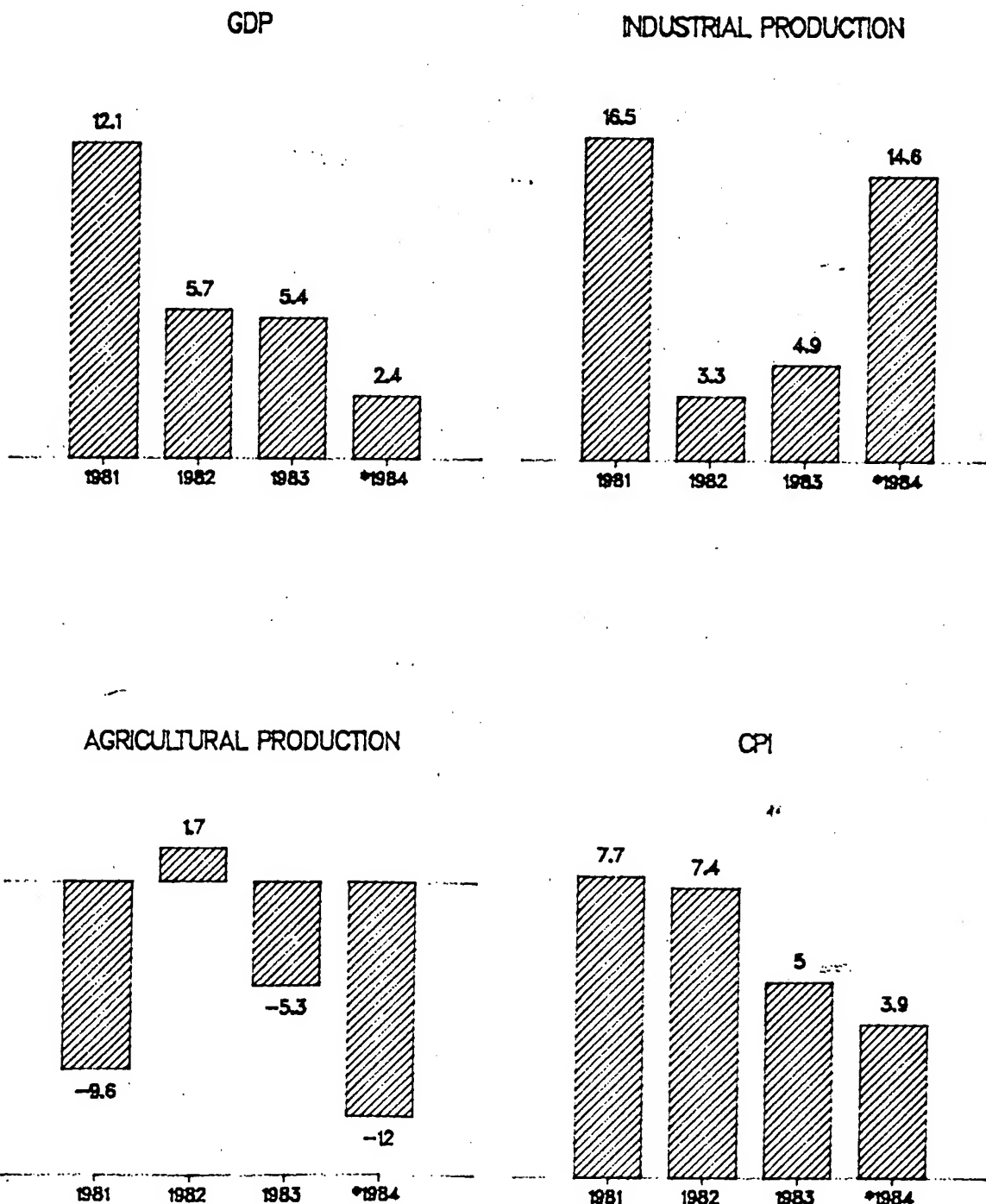
(\$US Million)

	1981	1982	1983	1984 ¹
Trade Balance	-2435	-2488	-2456	-2040
Exports (f.o.b.)	735	751	580	675
Imports (c.i.f.)	-3170	-3239	-3036	-2715
Net Services	1088	1092	1254	1150
Net workers' remittances	875	907	909	910
Unrequited transfers	1305	1060	813	600
Arab	1196	953	712	500
Current account balance	-42	-336	-389	-290
Official foreign exchange reserves	1049	848	798	500
Outstanding external debt ²	1624	2196	2648	NA

¹ Preliminary estimate² Includes public and publicly-guaranteed long-term debt except for loans received for military and oil purchases.

Source: Official Jordanian Statistics and the IMF

JORDAN: DOMESTIC ECONOMIC INDICATORS 1981 - 1984 (Percent Change)



* Preliminary Data

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SUBJECT: JORDAN: Surprising Economic Trends

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